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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
JULY 26, 1977

1. JAPAN-ASEAN DIALOGUE (CONFIDENTIAL)

INDICATIONS ARE THAT AFTER THE VISIT OF AN ASEAN
MINISTERIAL DELEGATION TO TOKYO IN PREPARATION OF PRIME
MINISTER FUKUDA'S SUMMIT MEETING WITH ASEAN AND HIS
TRIP TO SOUTHEAST ASIAN CAPITALS, A CONSIDERABLE GAP
REMAINS BETWEEN ASEAN REQUESTS AND LIKELY JAPANESE
OFFERS. MUCH OF JAPAN'S CONCESSIONS WILL BE IN THE AID
FIELD, INCLUDING SOME CONDITIONAL COMMITMENT TO THE ASEAN
INDUSTRIAL PROJECTS.

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MR. NANA O OF THE JAPANESE EMBASSY CALLED ON EB ON
INSTRUCTIONS TO EXPLAIN MINISTRY OF FOREIGN AFFAIRS
"THINKING ON TRADE AND COMMODITY POLICY ISSUES VIS-A-VIS
ASEAN. THE GOJ IS NOT PREPARED TO GIVE PREFERENTIAL
TRADE CONCESSIONS TO ASEAN. ON A STABEX TYPE REGIONAL
COMMODITY EXPORT EARNING STABILIZATION SCHEME VIEWS ARE
DIVIDED IN THE JAPANESE BUREAUCRACY. MOFA WOULD LIKE TO
BE FORTHCOMING AT LEAST TO THE POINT OF ACCEPTING SUCH
A SCHEME FOR STUDY AND POSSIBLY AS A GLOBAL RATHER THAN

REGIONAL ARRANGEMENT. WE HAVE EXPLAINED OUR PROBLEMS WITH REGIONAL ARRANGEMENTS ALONG THE LINES OF GUIDANCE GIVEN TO OUR EMBASSIES IN TOKYO AND ASEAN CAPITALS.

2. US-ASEAN TALKS (LIMITED OFFICIAL USE)

AS WE SUSPECTED, THE ASEAN PREPARATORY MEETING FOR THE US-ASEAN TALKS WHICH WERE TO TAKE PLACE ON JULY 13-14 WERE POSTPONED UNTIL MIDDLE OF AUGUST BECAUSE OF THE PRESSING WORK OF SUMMIT PREPARATIONS. WE MAY GET SOME FEEDBACK ON OUR PROPOSALS UNDER THREE AGENDA HEADINGS FROM THE PHILIPPINE COORDINATOR TOWARD THE END OF THIS WEEK.

3. ASEAN-EC GSP SEMINAR (UNCLASSIFIED)

DISCUSSIONS AT THE INDONESIAN HOSTED ASEAN SEMINAR IN SURABAYA ON THE EC GSP SCHEME CENTERED AROUND TWO ISSUES: 1) ASEAN'S VIEW THAT MANY PRODUCTS ARE UNFAIRLY EXCLUDED FROM THE GSP SCHEME AND 2) THE EC'S ARGUMENT THAT ASEAN COUNTRIES ARE NOT ADEQUATELY EXPLOITING THOSE AREAS OF ADVANTAGE THAT ALREADY EXIST. THE INDONESIAN AND THAI DELEGATIONS WERE THE MOST ACTIVE, CONFIDENTIAL

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WITH THAILAND PARTICULARLY DISPLEASED ABOUT THE ALMOST TOTAL EXCLUSION OF AGRICULTURAL PRODUCTS. THE INDONESIAN CHAIRMAN COMMENTED THAT THE MOST POSITIVE RESULT OF CONSULTATIONS WITH THE EC, AUSTRALIA AND NEW ZEALAND HAS BEEN THE DEVELOPMENT OF TRADE PROMOTION AGENCIES IN THESE COUNTRIES TO ASSIST ASEAN IMPORTERS. HE HOPED THAT A SIMILAR DEVELOPMENT WOULD GROW OUT OF JOINT ASEAN-US DISCUSSIONS.

4. FOREIGN ASSISTANCE LEGISLATION (UNCLASSIFIED)

ON JULY 19 HOUSE AND SENATE CONFEREES COMPLETED ACTION ON THE IFI AUTHORIZATION BILL. SINCE FLOOR AMENDMENTS ON HUMAN RIGHTS ARE EXPECTED IN THE HOUSE, HILL STRATEGISTS ARE SENDING IT TO THE SENATE FIRST, BUT AT THE MOMENT A FILIBUSTER ON ANOTHER MATTER IS HOLDING UP ACTION. THE CONFERENCE RESOLVED ALL THREE THORNY ISSUES -- DOLE AMENDMENT ON INDOCHINA, THE PALM OIL AMENDMENT, AND HUMAN RIGHTS -- IN WAYS THAT APPEAR SATISFACTORY TO THE ADMINISTRATION. THEY DROPPED THE DOLE AMENDMENT AND SUBSTITUTED A REQUIREMENT THAT US REPS VOTING ON IFI LOANS CONSIDER INTER ALIA VIETNAM, LAOS, AND CAMBODIA GOVERNMENT RESPONSIVENESS IN ACCOUNTING FOR AMERICAN MIAS. ON PALM OIL, SUGAR AND CITRUS, US REPS WOULD HAVE TO "OPPOSE" SUCH LOANS BUT ONLY WHEN THE LOANS RESULT IN EXPORTS AND THOSE EXPORTS

WOULD CAUSE INJURY TO US PRODUCERS OF COMPETING COMMODITIES. THE CONFEREES MADE CLEAR THAT "OPPOSE" PRECLUDES A POSITIVE VOTE, BUT PERMITS OTHER POSITIONS INCLUDING ABSTENTION. THE HUMAN RIGHTS PROVISION LIKewise REQUIRES US REPS TO "OPPOSE" IFI LOANS TO COUNTRIES DETERMINED TO BE VIOLATORS OF HUMAN RIGHTS, SUBJECT TO THREE QUALIFICATIONS: OTHER MEANS OF ADVANCING HUMAN RIGHTS MUST HAVE PROVEN INEFFECTIVE; AN EXCEPTION IS MADE FOR ASSISTANCE SERVING BASIC
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HUMAN NEEDS; AND THE PRESIDENT MAY WAIVE THE RESTRICTION IN "THE CAUSE OF INTERNATIONAL HUMAN RIGHTS".

THE BILATERAL AND SECURITY ASSISTANCE AUTHORIZATION BILL HAS PASSED BOTH HOUSES AND AWAITS THE PRESIDENT'S SIGNATURE. THE FOREIGN ASSISTANCE APPROPRIATIONS BILL IS PENDING FOR SENATE FLOOR ACTION.

5. WHITE HOUSE REORGANIZATION - FUTURE OF EPG
(LIMITED OFFICIAL USE)

THE ECONOMIC POLICY GROUP (EPG) HAS CEASED TO BE A WHITE HOUSE ORGAN AND ITS STAFF HAS BEEN DISBANDED AS PART OF THE REDUCTION IN THE WHITE HOUSE STAFF. THE EPG WILL CONTINUE TO BE A FORUM FOR MAJOR ECONOMIC POLICY DECISIONS WITH STAFFING, AS NECESSARY, FROM TREASURY AND OTHER AGENCIES. HOWEVER, CONSIDERABLE CONFUSION STILL EXISTS ABOUT HOW ECONOMIC POLICY DECISIONS WILL BE CHanneLED FROM THE EXECUTIVE AGENCIES TO THE WHITE HOUSE AND HANDLED THERE. OPTIONS PAPERS TO THE PRESIDENT ON ECONOMIC ISSUES WILL BE HANDLED BY THE DOMESTIC POLICY OR THE NSC STAFF. IT IS EXPECTED THAT ECONOMIC ISSUES WITH A STRONG DOMESTIC AS WELL AS FOREIGN CONTENT, INCLUDING TRADE ISSUES, WILL BE HANDLED IN THE WHITE HOUSE BY EIZENSTAT AND THAT OTHER FOREIGN ECONOMIC ISSUES WILL GO THROUGH BRZEZINSKY. SINCE NEITHER WHITE HOUSE STAFF HAS GOTTEN INTO ECONOMIC ISSUES UNTIL NOW, THE EPG IS INTENDED TO PROVIDE HIGH LEVEL GUIDANCE TO BOTH. CURRENT PLANS ARE FOR A NEWLY FORMED EPG STEERING COMMITTEE OF STATE, TREASURY, CEA AND OMB TO MEET WEEKLY OR MORE OFTEN IN A MORE INFORMAL MANNER THAN HERETOFORE; THE FULL EPG WOULD RARELY MEET. GUIDELINES ON THE PAPER FLOW REMAIN TO BE WORKED OUT.
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6. G-77 ON THE NIEO (LIMITED OFFICIAL USE)

THIRD WORLD REACTIONS TO AMBASSADOR YOUNG'S JULY 8 SPEECH TO THE 63RD ECOSOC WERE ALMOST ENTIRELY POSITIVE,

BUT THE EXCEPTION MAY REVEAL MORE THAN THE RULE. YOUNG
PLEDGED US SUPPORT FOR THE CONCEPT OF ECONOMIC JUSTICE

THAT IS SYMBOLIZED IN THE PHRASE "NEW INTERNATIONAL
ECONOMIC ORDER", AND HE DWELT AT SOME LENGTH ON THE
NECESSITY OF ALL COUNTRIES CONTRIBUTING TO MEETING BASIC
HUMAN NEEDS IN THE POOREST COUNTRIES. SOME MIDDLE-INCOME
COUNTRY DELEGATES, HOWEVER, EXPRESSED CONCERN TO US
MISSION GENEVA THAT EMPHASIS ON "BASIC NEEDS" IS REALLY
A DIVERSIONARY TACTIC AWAY FROM THE NIEO, WHICH FROM
THEIR POINT OF VIEW MEANS MARKET ACCESS, TRADE
PREFERENCES, TRANSFER OF TECHNOLOGY, ETC.

7. MFA RENEWAL (LIMITED OFFICIAL USE)

THE TEXTILES COMMITTEE OF GATT WAS UNABLE TO AGREE ON
THE FORMULATION FOR THE RENEWAL OF THE MULTI-FIBER
AGREEMENT. HOWEVER, THE US, SUPPORTED BY 15 COUNTRIES
(INCLUDING THE EC) WHICH ACCOUNT FOR ABOUT 85 PERCENT
OF WORLD TRADE IN TEXTILES, CALLED FOR THE OPENING OF A
PROTOCOL ON DECEMBER 15, 1977 TO EXTEND THE MFA IN ITS
PRESENT FORM FOR FOUR YEARS, SUBJECT TO UNDERSTANDINGS
SET OUT IN A DOCUMENT REFERRED TO AS "PAPER 44". IT IS
EXPECTED THAT THE EC WILL ATTEMPT TO NEGOTIATE
RESTRICTIVE BILATERAL AGREEMENTS WITH ITS MAJOR SUPPLIERS.
THIS MAY CAUSE US SOME DOMESTIC PROBLEMS AS THE EC
BILATERAL AGREEMENTS ARE LIKELY TO BE MORE RESTRICTIVE
THAN OURS AND THUS US INDUSTRY MAY PRESSURE FOR
RENEGOTIATION.

8. MTN: TROPICAL PRODUCTS (LIMITED OFFICIAL USE)
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MEXICO HAS AGREED TO MAKE TRADE CONCESSIONS IN EXCHANGE
FOR US CONCESSIONS ON TROPICAL PRODUCTS. AS MEXICO IS
THE FIRST LDC TO BREAK G-77 RANKS AND AGREE TO
RECIPROCAL CONCESSIONS ON TROPICAL PRODUCTS, ITS ACTION
MAY PROD OTHER LDCS (INDIA, ASEAN) INTO MAKING
CONCESSIONS. ADMITTEDLY, THE AGREEMENT WAS MADE UNDER
THE AUSPICES OF OVERALL US-MEXICAN BILATERAL DISCUSSIONS
NOT UNDER MTN AUSPICES.

9. OECD STEEL TALKS (LIMITED OFFICIAL USE)

THE FIRST SESSION OF THE OECD AD HOC STEEL GROUP MET AMID
GENERAL AGREEMENT ON THE URGENCY OF IDENTIFYING INDUSTRY
PROBLEMS AND THE NEED TO HOLD OFF PROTECTIONIST PRESSURES.
THE GROUP COMMISSIONED AN IN DEPTH ANALYSES BY THE
SECRETARIAT OF THE MEDIUM AND LONGER TERM SUPPLY/DEMAND
SITUATION. IT ALSO ADOPTED THE US PROPOSAL FOR A
PRESENTATION AT THE NEXT MEETING BY INTERESTED COUNTRIES
ON THE CURRENT SITUATION IN THEIR DOMESTIC INDUSTRY.

THE JAPANESE PUSHED FOR INCLUSION OF A SECTION ON

"PRODUCTION STRUCTURE" (TECHNOLOGY, CAPITAL STRUCTURE)
APPARENTLY IN ORDER TO HIGHLIGHT THE EFFICIENCY OF
JAPANESE STEEL MAKING AS THE SOURCE OF JAPAN'S STRONG
COMPETITIVE POSITION IN EXPORT MARKETS. IN RESPONSE
TO THE US STATEMENT THAT WE WILL OFFER OUR VIEWS ON
POSSIBLE SOLUTIONS, THE JAPANESE SAID THEY COULD NOT
COMMIT ITSELF TO DO MORE THAN STUDY THE SITUATION
WITHOUT FURTHER INSTRUCTIONS FROM TOKYO. THE NEXT
MEETING IS SCHEDULED FOR SEPTEMBER 20-OCTOBER 1.

10. SUGAR (LIMITED OFFICIAL USE)
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SUGAR CONSULTATIONS RESUMED IN LONDON LAST WEEK WITH
DISCUSSION CENTERED AROUND THE US PLAN FOR STOCKHOLDING
AND FINANCE. IN GENERAL THE ATMOSPHERE WAS HOPEFUL
BUT THE SILENCE OF BRAZIL WAS DISQUIETING.

ON THE DOMESTIC SCENE THE HOUSE ATTACHED AN AMENDMENT
TO THE OMNIBUS FARM BILL WHICH WOULD GUARANTEE US SUGAR
GROWERS 14.3 CENTS/LB. IMPLICIT IN THE PROPOSAL ARE
NEW SUGAR IMPORT CURBS, EITHER QUOTAS OR A VARIABLE
TARIFF. CONGRESSMAN VANIK HAS SCHEDULED HEARINGS ON
JULY 27 ON THE ITC REQUEST FOR CONGRESS TO OVERRIDE
THE PRESIDENT'S DECISION ON SUGAR. (THE ITC HAD
RECOMMENDED QUOTAS.) HOWEVER, NO GOVERNMENT WITNESSES
WILL BE CALLED UNTIL NEXT WEEK.

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